

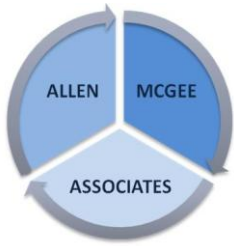
**CROCKETT MILLS UTILITY DISTRICT
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
DECEMBER 31, 2011**

CROCKETT MILLS UTILITY DISTRICT
FINANCIAL STATEMENTS
DECEMBER 31, 2011

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FINANCIAL SECTION



Allen, McGee and Associates

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

June 20, 2012

To the Board of Commissioners
Crockett Mills Utility District
Crockett Mills, Tennessee

We have audited the accompanying statement of net assets of Crockett Mills Utility District of Crockett County, Tennessee as of and for the year ended December 31, 2011, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of Crockett Mills Utility District's management. Our responsibility is to express opinions on these financial statements based on our audit.

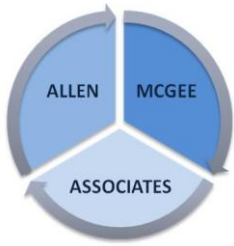
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Crockett Mills Utility District, as of December 31, 2011, and the changes in financial position, and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2012, on our consideration of the Crockett Mills Utility District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis pages 6 through 11 are not a required part of the basic financial statements but are supplementary information required by accounting

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principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Crockett Mills Utility District's basic financial statements taken as a whole. The accompanying financial information as listed in the table of contents supplementary information section are presented for purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Allen, McGee and Associates, LLC
Certified Public Accountants

CROCKETT MILLS UTILITY DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's analysis and overview of Crockett Mills Utility District's financial performance during the fiscal year that ended on December 31, 2011. Please read it in conjunction with the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

Management believes the District's financial condition is strong. Performances in most areas exceed the budget and other expectations. The District has complied with guidelines set by the Commissioners. The following are key financial highlights:

- The District delivered 22.6 million gallons of water.
- Total assets at year-end were \$606,954 and exceeded liabilities in the amount of \$595,368 (i.e. net assets). Of the total net assets, \$303,083 was unrestricted and was available to support short term operations. Total net assets increased from fiscal year end 2010 in the amount of \$10,651.
- Operating revenues were \$117,335, an increase from 2010 in the amount of \$4,635.
- Operating expenses before depreciation decreased by \$4,414 or 4.37% when compared to fiscal year 2010. Operating expenses including depreciation decreased by \$5,451 or 4.75%. This decrease in total expenses was due to decrease in maintenance and repairs.
- Operating income for the year was \$8,024 compared to a loss for 2010 of \$2,062.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's examination and analysis of the District's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the District's planning, budget, bond resolutions and other management tools were used for this analysis.

The financial statement report information about the District using full accrual accounting methods as utilized by similar business activities in the private sector. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities. Financial statements include a statement of net assets; a statement of revenues, expenses and changes in net assets, a statement of cash flow; and notes to the financial statements. The statement of net assets presents the financial position of the District on a full accrual historical cost

CROCKETT MILLS UTILITY DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

OVERVIEW OF THE FINANCIAL STATEMENTS (CONT.)

basis. While the statement of net assets provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses and changes in net assets present the results of the business activities over the course of the fiscal year and information to how the net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the District's recovery of its costs.

The District's rates are based on a cost of service rate study. Rate setting policies use different methods of cost recovery not fully provided for by generally accepted accounting standards. The primary objective of the rate model is to improve equity among customers and to ensure that capital costs are allocated on the basis of long term capacity needs, ensuring that growth pays for growth. The statement of cash flows presents changes in cash and cash equivalents, resulting from operation, financing and investing activities.

This statement presents cash receipts and cash disbursements information without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The notes to the financial statement provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligation, commitments, contingencies and subsequent events, if any. Supplementary information comparing the budget to actual expenses, as well as important debt coverage data, is provided when available.

The financial statements were prepared by the District's staff from the detailed books and records of the District. The financial statements were audited and adjusted, if material, during the independent external audit process.

CROCKETT MILLS UTILITY DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

SUMMARY OF ORGANIZATION OF BUSINESS

The District is duly incorporated pursuant to order of the County Court of Crockett County, Tennessee, and pursuant to Section 7-82-201, Inclusive, of the Tennessee Code Annotated.

The district provides reliable high quality supplies of potable water used for drinking, irrigation, and other purposes.

The Commission is charged to finance, construct, operate and maintain facilities for the transmission of potable water. A three member board governs the district. The board members serve a four-year term. When a vacancy occurs a listing of candidates is submitted from the Utility District to the Crockett County Mayor for appointment to the vacant position by the County Mayor.

FINANCIAL ANALYSIS

The most common financial question posed to the District is, "How did we do financially during 2011?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the District activities in a way that will help answer this question. These two statements report the net assets of the District and the changes in them. One can think of the District net assets – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the District net assets is one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors as changes in weather (wet, cool summers), addition of new customers, economic conditions, and new or changed government legislation.

**CROCKETT MILLS UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)**

FINANCIAL ANALYSIS (CONT.)

Table A-1
Condensed Statement of Net Assets

	Restated FY 2010	FY 2011	Change	Total Percent Changed
Total current and other assets	\$ 288,716	\$ 314,669	\$ 25,953	8.99%
Total noncurrent assets	306,722	292,285	(14,437)	(4.71)
Total Assets	595,438	606,954	11,516	1.93
 Total current liabilities	 10,722	 11,586	 864	 8.01
Total liabilities	10,722	11,586	864	8.01
 Invested in capital assets	 306,722	 292,285	 (14,437)	 (4.71)
Unrestricted (Restated)	277,994	303,083	25,089	9.03
Total net assets	584,716	595,368	10,652	1.82

As can be seen from the above table current assets increased by \$25,953 from \$288,716 while current liabilities increased only by \$864 from \$10,722 and Unrestricted Net Assets increased by \$25,089 from \$277,994.

**CROCKETT MILLS UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)**

FINANCIAL ANALYSIS (CONT.)

Table A-2
Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	FY 2011	FY 2010	Change	Total Percent Changed
Operating revenues	\$117,335	112,700	4,635	4.11%
Non-operating revenues	2,627	3,387	(760)	(22.44)
Total revenues	119,962	116,087	3,875	3.34
Depreciation and Amortization	12,767	13,804	(1,037)	(7.51)
Other operating expense	96,544	100,958	(4,414)	(4.37)
Total expenses	109,311	114,762	(5,451)	(4.75)
Changes in net assets	10,651	1,325	9,326	703.85
Beginning Net Assets	578,351	577,026	1,325	.23
Prior Period Adjustments	6,365	0	0	0
Ending net assets	595,367	578,351	17,016	2.94

While the statement of Net Assets shows the change in financial position, the statement of Revenues, Expenses, and Changes in Net Assets provide answers as to the nature and source of these changes.

CROCKETT MILLS UTILITY DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

CAPITAL ASSETS

At December 31, 2011, the District had \$292,285 invested in capital assets.

Table A-3
Capital Assets

	FY 2011	FY 2010	Change	Total Percent Change
<u>Capital assets</u>				
Land	\$ 568	\$ 568	\$ 0	0.0 %
Equipment	1,068	1,068	0	0
Distribution System	649,343	668,403	(19,060)	(2.85)
Meter and Line Improvements	37,311	37,311	0	0
Accumulated Depreciation	(396,005)	(400,627)	4,622	1.15
Net Capital Assets	<u>\$ 292,285</u>	<u>\$ 306,723</u>	<u>\$ (14,438)</u>	<u>(4.71)%</u>

DEBT ADMINISTRATION

The District had no long term debt as of December 31, 2011.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET RATES

The Board and Management of the District consider many factors when setting the fiscal year 2011 budget, user fees, and charges. One of the factors is making enough money to meet our current obligations, meet all state and federal requirements, and provide our customers with safe, affordable drinking water.

UTILITY CONTACT INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact the Board of Directors of the Crockett Mills Utility District of Crockett County, Tennessee at P O Box 58, Crockett Mills, Tennessee, 38021.

Crockett Mills Utility District
Statement of Net Assets
December 31, 2011

ASSETS

Current Assets:

Cash and cash equivalents	\$ 300,865
Accounts Receivables	7,688
Prepaid Expenses	2,249
Utility Deposit	10
Inventory	3,857
Total current assets	<u>314,669</u>

Capital assets:

Land	568
Office Equipment	1,068
Water Plant and Improvements	662,555
Distribution System	24,099
	<u>688,290</u>
Less accumulated depreciation	<u>396,005</u>
Net capital assets	<u>292,285</u>

Total assets	<u><u>\$ 606,954</u></u>
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LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$ 836
Customer Deposits	394
Payroll Liabilities	4,445
Sales tax payable	883
Rental Deposit Payable	5,028
Total current liabilities	<u>11,586</u>
Total liabilities	<u>11,586</u>

Net assets:

Invested in capital assets	292,285
Unrestricted net assets	303,083
Total net assets	<u>595,368</u>

Total liabilities and net assets	<u><u>\$ 606,954</u></u>
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Crockett Mills Utility District
Statement of Revenue, Expenses and Changes in Net Assets
For the Year Ended December 31, 2011

Operating revenue:

Water Sales	114,301	
Returned Check Fee	54	
Fee Cut on Rental	360	
Tap Fees	1,400	
Fee Cut on Owner	360	
Reconnection fees	860	
Total operating revenue		\$ 117,335

Operating expenses:

Bank Fees	99	
Depreciation Expense	12,767	
Insurance	4,329	
Collection Fee	350	
Software Maintenance	2,100	
Repairs & Maintenance	20,899	
Contract Labor	1,630	
Supplies	3,149	
Parts	2,323	
Postage	889	
Advertising	215	
Travel	1,034	
Dues	250	
Miscellaneous	2,125	
Professional Fees	5,938	
Telephone	909	
Utilities	9,555	
Payroll Expenses	38,971	
Water Samples	1,779	
Total operating expenses		109,311
Operating income		8,024

Crockett Mills Utility District

Statement of Revenue, Expenses and Changes in Net Assets (Cont.)

Non-operating revenues (expenses)		
Interest Income	<u>2,627</u>	
Total non-operating revenue and expenses, net		<u>2,627</u>
Increase(decrease) in net assets		10,651
Net assets at beginning of year		578,351
Prior Period Adjustment		<u>6,365</u>
Net assets at end of year		<u><u>\$ 595,367</u></u>

Crockett Mills Utility District
Statement of Cash Flows
For the Year Ended December 31, 2011

Cash flows from operating activities:

Cash received from customers	\$ 117,866
Cash Paid for Employees	(38,971)
Cash payments for goods and services	<u>(54,890)</u>
Net cash provided by operating activities	24,005

Cash flows from investing activities:

Receipts from the Disposition of Fixed Assets	1,671
Receipts of interest	<u>2,627</u>
Net cash provided by (used in) investing activities	4,298

Net increase (decrease) in cash and cash equivalents	28,303
Cash and cash equivalents, beginning of year	<u>272,562</u>

Cash and cash equivalents, end of year	<u><u>\$ 300,865</u></u>
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Reconciliation of operating income/(loss) to net cash provided
by operating activities:

Operating income/(loss)	\$ 8,024
Depreciation	12,767
Changes in assets and liabilities:	
Decrease (increase) in accounts receivable	531
Decrease (increase) in Prepaid Insurance	(169)
Decrease (increase) in Inventory	1,988
Increase (decrease) in accounts payable	410
Increase (decrease) in accrued taxes payable	<u>454</u>

Net cash provided by operating activities	<u><u>\$ 24,005</u></u>
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Crockett Mills Utility District
Notes to Financial Statements
December 31, 2011

NOTE 1. DEFINITION OF THE REPORTING ENTITY

The Crockett Mills Utility District (the “District”) is a non-profit corporation which operates a utility district under the laws of the State of Tennessee to provide water service to customers in a defined service area, Crockett County.

The District meets the definition of a primary quasi-governmental entity under the following criteria – 1) the district is governed by a board of three commissioners, appointed by the Crockett County Mayor, 2) the district has separate legal standing, and 3) the district is fiscally independent.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Method of Accounting

The District operates as an enterprise activity, and its records are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recognized when incurred. The District follows all applicable Governmental Accounting Standards Board (GASB) pronouncements, and Financial Accounting Standards Board (FASB) pronouncements issued before November 30, 1989 unless the FASB pronouncements conflict or contradict GASB pronouncements. Governments also have the option of following subsequent private-sector guidance (FASB) for its enterprise activities, subject to the same limitation. The District has elected not to follow subsequent private-sector guidance.

B. Cash Equivalents

For the purposes of the Statement of Cash Flows, the district considers all highly liquid investment with an initial maturity of three months or less to be cash equivalents regardless of restrictions.

C. Receivables

Accounts receivable are the result of ordinary transactions in the normal course of business. The District uses the direct write off method to reflect uncollectible accounts. Water revenues are recognized on the accrual basis as earned. The District board adopts and adjusts a formal rate structure for services that is designed to meet operational costs, capital improvement and replacements, and rational reserves.

Crockett Mills Utility District

Notes to Financial Statements (Cont.)

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

D. Capital Assets

Capital assets are recorded at historical cost at the time of purchase and are depreciated over the estimated useful life of each asset, using the straight-line method of depreciation. Currently, the District does not have a formal policy in place. Depreciation expense for the year ended December 31, 2011, was \$12,767.

Expenditures for maintenance and repairs, which do not improve or extend the life of the asset, are charged to expenses as incurred. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. For the year under examination, there was no interest costs capitalized.

The capital assets of the District are depreciated using the straight-line method over estimated useful lives as follows:

Water Plant	40 years
Equipment	10 years
Office Equipment	5 years

E. Compensated Absences

The District does not pay employee vacations as they are all part-time employees. Therefore the District does not report any amounts for compensated absences on the financial statements.

F. Management Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates.

Crockett Mills Utility District
Notes to Financial Statements (Cont.)

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

G. Contributed Capital

Contributions are recognized in the Statement of Revenues, Expenses, and Changes in Net Assets when earned. Contributions include capital grants, tap fees in excess of tap connection expense, and customer contributions from system expansion projects.

Water and sewer lines are recorded as capital contributions when they pass inspection by the District. The estimated costs, which approximate fair value, are capitalized as cost of plant in service.

H. Net Assets

The District classifies net assets into three components; (1) invested in capital assets, net of related debt (2) restricted, and (3) unrestricted. These classifications are defined as follows:

- 1) Invested in capital assets - This component of net assets consists of capital assets, including restricted capital assets, net of Accumulated depreciation. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation for invested in capital assets. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- 2) Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- 3) Unrestricted net assets - This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

Crockett Mills Utility District

Notes to Financial Statements (Cont.)

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

I. Revenues and Expenses

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from non-exchange transactions or ancillary activities. When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the District's policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net assets.

J. Statements of Cash Flows

For purposes of the Statements of Cash Flows, the District considers all currency, demand deposits, money market accounts and certificates of deposit with banks or other financial institutions to be cash equivalents.

NOTE 3. BUDGETS

The District's board of commissioners reviews and adopts an annual operating budget prepared by management. The budget is prepared on a basis consistent with accounting principles generally accepted in the United States of America and that basis is consistent with the basis used in preparing the district's financial statements.

NOTE 4. MAJOR CUSTOMERS

Sales to no single customer exceeded 10% of total operating revenues.

NOTE 5. DEPOSITS AND INVESTMENTS

The District's bank deposits are categorized below to give an indication of the level of risk assumed by the District at fiscal year end

Crockett Mills Utility District

Notes to Financial Statements (Cont.)

NOTE 5. DEPOSITS AND INVESTMENTS (CONT.)

Category 1 includes insured or collateralized deposits with securities held by the District or by its agent in the District's name.

Category 2 includes collateralized deposits with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 includes uninsured and uncollateralized deposits.

	Category			Total Bank	Carrying
Dec 31, 2011	1	2	3	Balance	Amount
Deposits with Financial Institutions	\$300,973			\$ 300,973	\$ 300,865

Bank deposits are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$250,000 each for interest bearing and noninterest bearing accounts. As of December 31, 2011 all deposits were insured by the FDIC and collateralized by pledges of securities deposited to a third-party trustee.

NOTE 6. RISK MANAGEMENT

The District is exposed to various risks of loss relating to, theft, and damage to, and destruction of assets. Furthermore, there is exposure to risks of loss relating to natural disasters, errors and omissions, and torts. To insure against casualty risks, the District purchases insurance coverage through an independent insurance agency. The insurance coverage is disclosed in the supplementary schedule of insurance.

Settled claims have not exceeded the commercial coverage in the past three fiscal years.

Crockett Mills Utility District

Notes to Financial Statements (Cont.)

NOTE 7. CONTINGENT LIABILITIES

As of the date of this report no contingent liabilities exist for the District.

NOTE 8. LONG-TERM DEBT

The District had no long term debt as of December 31, 2011.

NOTE 9. CAPITAL ASSETS

A summary of capital asset activity and changes in accumulated depreciation for the year ended December 31, 2011 follows:

	Restated Balance 1/1/2011	Additions	Deductions	Balance 12/31/2011
<u>Capital assets</u>				
Land	\$568	\$ 0	\$ 0	\$568
Distribution System	668,403	0	19,060	649,343
Meter and Line Improvements	24,099	0	0	24,099
Expansion of Water System	4,038	0	0	4,038
Well Pump Improvements	9,174	0	0	9,174
Office Furniture and Equipment	1,068	0	0	1,068
Total Capital Assets	707,350	\$ 0	\$19,060	\$688,290
<u>Accumulated Depreciation</u>				
Distribution System	\$389,149	\$ 11,146	\$17,389	\$382,906
Meter and Line Improvements	3,175	602	0	3,777
Expansion of Water System	1,027	101	0	1,128
Well Pump Improvements	6,208	918	0	7,126
Office Furniture and Equipment	1,068	0	0	1,068
Total Accumulated Depreciation	\$400,627	\$ 12,767	\$17,389	\$396,005
Net Capital Assets	\$306,723	(12,767)	(1,671)	\$292,285

Depreciation expense incurred during the year amounted to \$12,767.

Crockett Mills Utility District
Notes to Financial Statements (Cont.)

NOTE 10. CHANGES IN AMOUNTS INVESTED IN CAPITAL ASSETS

The change in amounts invested in capital assets, net of related debt can be summarized as follows:

	Invested in Capital Assets
Beginning of year (restated)	\$584,717
Change in capital assets	10,651
End of year	<u>595,368</u>

NOTE 11. EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through June 20, 2012 the date which the financial statements were available to be issued and no subsequent events were identified.

NOTE 12. ADVERTISING

Advertising costs were expensed when incurred and not capitalized or matched to revenue that it may have generated. The amount of advertising costs during the audit period was \$215 and the amount of revenue generated from this has not been determined.

NOTE 13. PRIOR PERIOD ADJUSTMENT

A prior period adjustment of \$6,365 was made in the financial statements of this report due to certain liabilities that did not meet the current definition of a liability.

SUPPLEMENTARY INFORMATION SECTION

Crockett Mills Utility District
Schedule of Utility Rates in Force Last Three Years
For the Year Ended December 31, 2011

	2011	2010	2009
<hr/>			
Water Rates:			
Residential Rates			
First two thousand gallons	19.77	19.77	19.77
100 gallons thereafter	0.25	0.25	0.25

Crockett Mills Utility District
Schedule of Unaccounted for Water
For the Year Ended December 31, 2011

(All amounts in thousand gallons)

A	Water Treated and Purchased:		
B	Water Pumped (potable)	35,209	
C	Water Purchased	0	
D	Total Water Treated and Purchased		35,209
	(Sum Lines B and C)		
E	Accounted for Water:		
F	Water Sold	22,561	
G	Metered for Consumption (in house usage)	0	
H	Fire Department(s) Usage	0	
I	Flushing	211	
J	Tank Cleaning/Filling	1,649	
K	Street Cleaning	0	
L	Bulk Sales	0	
M	Water Bill Adjustments / plus or (minus)	0	
N	Total Accounted for Water		24,421
	(Sum Lines F thru M)		
O	Unaccounted for Water		10,789
	(Line D minus Line N)		
P	Percent Unaccounted for Water		30.64%
	(Line O divided by Line D times 100)		

Q Other (explain)

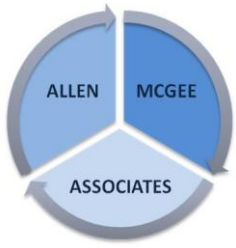
See Below

Explain Other:

None

All amounts included in this schedule are supported by documentation on file at the Utility District's office. If no support is on file for a line item or if a line item is not applicable, a "0" is shown.

COMPLIANCE SECTION



Allen, McGee and Associates

Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

June 20, 2012

To the Board of Commissioners
Crockett Mills Utility District
Crockett Mills, Tennessee

We have audited the financial statements of Crockett Mills Utility District, as of and for the year ended December 31, 2011, and have issued our report thereon dated June 20, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

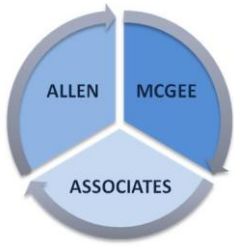
Internal Control Over Financial Reporting

In planning and performing our audit, we considered Crockett Mills Utility District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Crockett Mills District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Crockett Mills Utility District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings that we consider to be significant deficiencies in internal control over

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financial reporting. Finding 11-01 Duties Were Not Adequately Segregated, Finding 11-02 Failure to Inventory Fixed Assets and Reconcile to the General Ledger Controls, and Finding 11-03 Failure to Maintain Written Purchasing Policies and Procedures. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Crockett Mills Utility District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as item Finding 11-04 Publication Requirements.

Crockett Mills Utility District's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit Crockett Mills Utility District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, District Commissioners, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Allen, McGee and Associates, LLC
Certified Public Accountants

**Crockett Mills Utility District
Schedule of Audit Findings Not Corrected
Year Ended December 31, 2011**

Government Auditing Standards require auditors to report the status of uncorrected findings from prior audits. Presented below are findings from the Financial Report for the Dry Run Utility District for the year ended December 31, 2010, which have not been corrected.

Finding Number	Page Number	Subject
10-01	33	Duties Were not Adequately Segregated

**Crockett Mills Utility District
Schedule of Findings
Year Ended December 31, 2011**

PART I. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Crockett Mills Utility District.
2. The audit of the financial statements of the Crockett Mills Utility District disclosed significant deficiencies in internal control. None of these conditions were considered to be a material weakness.
3. Instances of noncompliance material to the financial statements of the Crockett Mills Utility District were disclosed during the audit.

PART II, FINDINGS RELATING TO THE FINANCIAL STATEMENTS

FINDING 11-01 **DUTIES WERE NOT ADEQUATELY SEGREGATED**
(Internal Control – Significant Deficiency under *Government Auditing Standards*)

The size of Crockett Mills Utility District's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. Duties were not adequately segregated among employees or other responsible parties of the utility district. The employee responsible for maintaining accounting records was also involved in receipting, depositing, and disbursing funds.

RECOMMENDATION

Due to the nature and size of the organization, it is not practical or financially feasible for the organization to properly segregate these duties. Therefore, management may wish to acknowledge and accept this deficiency or develop compensation controls.

MANAGEMENT RESPONSE

We concur with this finding.

FINDING 11-02 **FAILURE TO INVENTORY FIXED ASSETS AND RECONCILE TO PROPERTY RECORDS**
(Internal Control – Significant Deficiency under *Government Auditing Standards*)

During our examination, it was noted that assets totaling \$19,060 were no longer in the district's possession. The Utility District Internal Control and Compliance Manual Title 5 Chapter 17 states "An annual physical inventory should be performed, documented, and reconciled to the property records".

Crockett Mills Utility District Schedule of Findings (Cont.)

PART II, FINDINGS RELATING TO THE FINANCIAL STATEMENTS (CONT.)

FINDING 11-02 FAILURE TO INVENTORY FIXED ASSETS (CONT.)

RECOMMENDATION

The management of the utility district should at least annually inventory and reconcile the fixed assets of the district to the general ledger as required by *The Utility District Internal Control and Compliance Manual*.

MANAGEMENT RESPONSE

We concur with this finding.

FINDING 11-03 **FAILURE TO MAINTAIN WRITTEN PURCHASING POLICIES AND PROCEDURES** (Internal Control – Significant Deficiency under *Government Auditing Standards*)

During the period under examination the Utility District was able to provide proof of purchasing policies and procedures being approved by the board of commissioners. However, the district employees could not produce copies of the policies for our inspection. Sound internal controls require that a written set of policies and procedures be maintained and available for use by the employees of the district to ensure that all materials and supplies are being used in the appropriate manner and are properly accounted for.

RECOMMENDATION

Crockett Mills Utility District should locate or reestablish policies and procedures to strengthen internal controls and verify those policies and procedures comply with the *Utility District Internal Control and Compliance Manual*.

MANAGEMENT RESPONSE

Policies and Procedures have been approved, they cannot be located at this time.

Crockett Mills Utility District Schedule of Findings (Cont.)

PART II, FINDINGS RELATING TO THE FINANCIAL STATEMENTS (CONT.)

FINDING 11-04: PUBLICATION REQUIREMENTS (Noncompliance under
Government Auditing Standards)

The District violated the state requirement to publish summary financial statements within 90 days of its fiscal year end. The District is required by State law to publish summary financial statements within 90 days of its fiscal year end.

RECOMMENDATION

The District should set up a system to remind management to comply with this requirement.

MANAGEMENT RESPONSE

We concur with this finding